

**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 7, 2006 Through April 10, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
SIMPSON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 7, 2006 Through April 10, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Simpson County Sheriff for the period April 7, 2006 through April 10, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,061,545 for the districts for 2006 taxes, retaining commissions of \$253,427 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,751,941 to the districts for 2006 Taxes. Taxes of \$45 are due to the library district from the Sheriff and refunds of \$286 are due to the Sheriff from the other taxing districts.

Report Comment:

The Sheriff Should Implement Compensating Controls Over Cash And Receipts

Deposits:

The Sheriff's deposits as of November 10, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$504,582

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Henderson, Simpson County Judge/Executive
Honorable R. E. Starks, Simpson County Sheriff
Members of the Simpson County Fiscal Court

Independent Auditor's Report

We have audited the Simpson County Sheriff's Settlement - 2006 Taxes for the period April 7, 2006 through April 10, 2007. This tax settlement is the responsibility of the Simpson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Simpson County Sheriff's taxes charged, credited, and paid for the period April 7, 2006 through April 10, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jim Henderson, Simpson County Judge/Executive

Honorable R. E. Starks, Simpson County Sheriff

Members of the Simpson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Implement Compensating Controls Over Cash And Receipts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

February 20, 2008

SIMPSON COUNTY
R. E. STARKS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 7, 2006 Through April 10, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 844,133	\$ 620,686	\$ 3,293,772	\$ 1,059,304
Tangible Personal Property	131,718	107,476	426,449	588,343
Street Lights		8,339		
Increases Through Exonerations	102	75	398	128
Franchise Taxes	37,947	26,019	126,832	
Additional Billings	202	148	788	253
Oil and Gas Property Taxes	94	69	368	119
Limestone, Sand and Mineral Reserves	111	82	433	139
Bank Franchises	50,417			
Penalties	5,116	4,382	19,841	6,703
Adjusted to Sheriff's Receipt	<u>(51)</u>	<u>(11)</u>	<u>(132)</u>	<u>(75)</u>
Gross Chargeable to Sheriff	<u>1,069,789</u>	<u>767,265</u>	<u>3,868,749</u>	<u>1,654,914</u>
<u>Credits</u>				
Exonerations	6,452	4,744	25,175	8,096
Discounts	15,663	11,027	55,689	26,472
Delinquents:				
Real Estate	19,492	14,595	76,058	24,461
Tangible Personal Property	835	577	2,705	7,000
Franchise Taxes	<u>28</u>	<u>18</u>	<u>85</u>	
Total Credits	<u>42,470</u>	<u>30,961</u>	<u>159,712</u>	<u>66,029</u>
Taxes Collected	1,027,319	736,304	3,709,037	1,588,885
Less: Commissions *	<u>43,949</u>	<u>30,392</u>	<u>111,271</u>	<u>67,815</u>
Taxes Due	983,370	705,912	3,597,766	1,521,070
Taxes Paid	973,145	698,815	3,564,012	1,515,969
Refunds (Current and Prior Year)	<u>10,259</u>	<u>7,122</u>	<u>33,893</u>	<u>5,144</u>
Due District or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (34)</u>	<u>\$ (25)</u>	<u>\$ (139)</u>	<u>\$ (43)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

SIMPSON COUNTY
R. E. STARKS, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period April 7, 2006 Through April 10, 2007
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,982,032
4% on	\$	360,476
3% on	\$	3,709,037

** Special Taxing Districts:

Library District	\$	45
Ambulance District		<u>(70)</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(25)</u></u>
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SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 10, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SIMPSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 10, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 10, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 10, 2006, \$504,582 of public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$504,582

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2006 through April 10, 2007.

B. Limestone, Sand, and Mineral Reserves and Oil Taxes

The limestone, sand, and mineral reserves and oil tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2007 through April 10, 2007.

Note 4. Interest Income

The Simpson County Sheriff earned \$5,027 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Simpson County Sheriff collected \$25,267 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Simpson County Sheriff collected \$680 of advertising costs and \$1,970 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Henderson, Simpson County Judge/Executive
Honorable R. E. Starks, Simpson County Sheriff
Members of the Simpson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Simpson County Sheriff's Settlement - 2006 Taxes for the period April 7, 2006 through April 10, 2007, and have issued our report thereon dated February 20, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Simpson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Simpson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Simpson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff Should Implement Compensating Controls Over Cash And Receipts



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Simpson County Sheriff's Settlement - 2006 Taxes for the period April 7, 2006 through April 10, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Simpson County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 20, 2008

COMMENT AND RECOMMENDATION

SIMPSON COUNTY
R. E. STARKS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 7, 2006 Through April 10, 2007

The Sheriff Should Implement Compensating Controls Over Cash And Receipts

During our review of internal controls, we noted the following lack of segregation of duties over cash and receipts:

- The Sheriff's bookkeeper collected money, prepared deposits, and prepared daily collection printouts. The Sheriff or another individual did not document oversight of any of these activities.
- The Sheriff's office did not document reconciling monthly tax reports to receipts and disbursements.

No compensating controls were noted to offset any of these control activities. The Sheriff should implement the compensating controls noted below to offset these internal control weaknesses.

- Cash counts should be documented and the person performing count should sign off. If cash is recounted, that person should also sign off.
- Cash should periodically be recounted and deposited by the official. The official should document this cash count.
- Agree monthly tax reports to daily cash collection printouts and checks written. This procedure could be documented by running a total on the daily tax collection printouts and checks written. These totals could be agreed to the total per monthly tax reports.
- Total deposits for month should be agreed to checks written for month. For example, all receipts for November should be paid out in December.
- The Sheriff or designee should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the daily tax collection printout. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and daily tax collection printout.

Sheriff's Response: None.

